



ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson
Director*

MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

**Tuesday, September 21, 2012
8:30 A.M., MST**

The Arizona State Retirement System (ASRS) Board met in the 14th Floor Conference Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. Tom Manos, Chair of the ASRS Board, called the meeting to order at 8:33 A.M., MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Tom Manos, Chair
Mr. Mike Smarik, Vice-chair
Mr. Tom Connelly
Mr. Kevin McCarthy
Mr. Brian McNeil
Mr. Jeff Tyne

Absent: Professor Dennis Hoffman

Two vacant positions.

A quorum was present for the purpose of conducting business.

2. Presentation Regarding PRIDE Award for Diversity

Mr. Paul Matson, Director, introduced the topic, and Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, recognized the following nominees for the PRIDE Diversity award: Jean Langston, Kim Beck, and Nicie Montanez.

The nominees were recognized by their peers as exemplifying the following PRIDE qualities of diversity:

- An attitude of openness to encourage a free flow of ideas and opinions
- Working effectively to accomplish goals with teams comprised of dissimilar individuals or groups
- Recognizing and promoting new skills in others attained on and off the job to achieve desirable results
- Treating others different from you with dignity and respect

Mr. Guarino presented the PRIDE Award for Diversity to the award winner, Nicie Montanez.

3. Approval of the Minutes of the August 17, 2012 Public Meeting and Executive Sessions and August 28 Public Meeting and Executive Session of the ASRS Board

Motion: Mr. Mike Smarik moved to approve the minutes of the August 17, 2012 Public Meeting and Executive Sessions and August 28 Public Meeting and Executive Session of the ASRS Board. Mr. Jeff Tyne seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, 1 excused, and 2 vacancies, the motion was approved.

4. Approval, Modification, or Rejection of Recommended Administrative Law Judge's Decision Regarding Ms. Bonnie Pendergast's Appeal regarding Her Service Purchase Request

Mr. Adam Lang, Ms. Pendergast's attorney, argued SB 1609, which limits service purchase to five years and took effect on July 20, 2011, is unconstitutional because it diminishes Ms. Pendergast's ability to purchase service, and the ASRS should not uphold it.

Ms. Jothi Beljan, Assistant Attorney General, provided a history of service purchase statutes, explained the service purchase process, and gave case law history.

Mr. Chris Munns, Attorney General, Solicitor General Section, answered the Board's questions and explained agencies do not have authority to determine if laws are unconstitutional and cannot disregard a validly enacted statute.

Motion: Mr. Jeff Tyne moved to accept the ruling of the Administrative Law Judge to uphold the Director's determination that Ms. Bonnie Pendergast is limited to purchase a maximum of sixty (60) months of other public service/employment, with the addition of making a technical correction to the Decision, page 2, Finding of Fact No. 9. SB 1609 reduced the number of public employment years a member could purchase from no restriction to five years. Mr. Tom Connolly seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, 1 excused, and 2 vacancies, the motion was approved.

5. Approval, Modification, or Rejection of Administrative Law Judge's Recommended Decision Regarding Ms. Susan Naparstek's Appeal Disputing an Overpayment of ASRS Long Term Disability Benefits

Ms. Naparstek was not present. A representative of Ms. Naparstek was not present.

Motion: Mr. Mike Smarik moved to accept the ruling of the Administrative Law Judge to uphold the Director's determination that ASRS member Ms. Susan Naparstek is required to repay an LTD benefit overpayment. Mr. Kevin McCarthy seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, 1 excused, and 2 vacancies, the motion was approved.

6. Presentation, Discussion and Appropriate Action Regarding Agency Governance

This agenda item was moved earlier in the agenda to accommodate participants' schedules. Mr. Matson noted governance has typically been presented to the Board in late Spring each year. It was postponed due to new Board Trustee appointments and the September governance presentation to the Investment Committee.

Mr. Matson provided a brief overview of the *Board Governance Policy Handbook*, the *Cortex 2010 Benchmarking Study for U.S. Public Retirement Systems*, and the accompanying *ASRS Management Response*. Mr. Matson said the Board would have opportunity to review and comment on the *Board Governance Policy Handbook* during the October meeting.

Mr. Bernard Glick, Chief Internal Auditor, presented the *Agency Governance Audit*, which had been presented to the Operations Committee (OC) in April 2012, detailing the findings and recommendations. Several recommendations have already been put into place, such as ensuring all Board members are informed of what transpires in Committees in which they are not members. The *Audit* recommended changing the name of the agency Security Steering Committee to the Enterprise Risk Management Committee, to reflect the actual focus of its duties. A Risk Officer would monitor the program and report to the Director and Board. Mr. Glick noted the OC would formally be responsible for audit (risk) oversight. This would formalize what the OC already does. Trustees asked several questions and Mr. Glick and Mr. Matson responded.

Mr. Tom Iannucci, President, Cortex Applied Research, presented the Cortex Investment Governance Review, which had been presented to the Investment Committee (IC) on September 10, 2012. The ASRS hired Cortex to conduct an independent review and evaluation specific to the governance of the ASRS investment management program. Mr. Iannucci outlined governance best practices and their underlying assumptions. He noted there were numerous positive findings found in the recent review. He outlined four strategic findings and recommendations:

- ASRS lacks autonomy over its procurement policy, operating budget, legal services, and personnel and compensation structure,
- Delineation of authority regarding roles of the Board and staff in selecting investment managers,
- Strategic planning should address the investment program in a more meaningful manner,
- Review of Board Governance should occur less often, perhaps every two or three years.

Discussion ensued throughout the presentation. Trustees felt compensation is key to retaining qualified investment staff. Trustees requested details regarding the recommended new roles of Board and staff be clarified in the upcoming *Board Governance Handbook* review.

7. Presentation, Discussion and Appropriate Action Regarding the Total Fund Investment Performance Review for quarter ending 6/30/12

Mr. Gary Dokes, Chief Investment Officer; Mr. David Underwood, Assistant Chief Investment Officer; and Mr. Allan Martin, Partner, NEPC, addressed the Board regarding the Total Fund Performance Overview for the period ending June 30, 2012, highlighting specific areas of interest and concern.

Mr. Kevin McCarthy departed the meeting at 11:39 A.M.

The Total Fund Performance for the period ending June 30, 2012 is:

	Quarter	1 Year	3 Years	5 Years	10 Years	Since Inception (6/30/75)
Total Fund	-2.1%	1.3%	13.2%	1.8%	6.3%	9.8%
Interim SAA Policy	-1.6%	1.4%	12.6%	1.7%	6.0%	9.5%
Excess Return	-0.5%	-0.1%	0.6%	0.1%	0.3%	0.3%

*Interim SAA Policy: 31% S&P 500/6% S&P 400/6% S&P 600/13% MSCI EAFE/2% MSCI EAFE Small Cap/3% MSCI Emerging Markets/4% Russell 2000 (lagged one quarter)/24% Barclays Capital Aggregate/2% Barclays Capital High Yield/6% NCREIF ODCE (lagged one quarter)/3% Dow Jones/UBS Commodities Index.

Note: Interim SAA Policy includes a proration of 3% Private Equity, which is unfunded. Private Equity was prorated to domestic equity. Recently approved Strategic Asset Allocation Policy effective July 1, 2012.

Mr. Dokes discussed the Investment Management Division's Investment House Views.

8. Presentation, Discussion and Appropriate Action Regarding the Global Tactical Asset Allocation (GTAA) Program Review

Mr. Dokes, Mr. Underwood, and Mr. Martin, addressed the Board regarding the ASRS GTAA program. The program began in 2003, and is designed to provide a systematic framework for making macro-economic tactical investments in the broad economic, or "beta," asset classes in which the ASRS invests. GTAA is viewed, as an "alpha generator" program whose returns, in aggregate, should provide long-term returns in excess of ASRS Strategic Asset Allocation Policy returns.

As of June 30, 2012, the total market value of the ASRS GTAA program is approximately \$2.8 billion or 10.1% of total assets. The GTAA program policy target/range is 10% \pm 5%.

9. Presentation, Discussion, and Appropriate Action Regarding Modifications to the ASRS Long Term Disability (LTD) Investment Program

Mr. Dokes presented the topic. He explained the LTD program investment assets are invested in passive asset class modules held at and managed by BlackRock. He noted, over the past year, the ASRS assumed responsibility and discretion for LTD fund rebalancing between passive asset class modules to better manage LTD program cash flow needs and to maintain asset allocation policy weights. The proposed modifications to the ASRS LTD Fund Rebalancing Policy are technical in nature and more clearly reflect the activities being performed by the ASRS and BlackRock. Mr. Dokes said modifications to LTD Strategic Asset Allocation Policy are being recommended by staff and the IC for approval, consistent with the June 15, 2012 Board approval of the new ASRS Strategic Asset Allocation Policy.

Mr. Connelly suggested incorporating verbiage regarding plan "repositioning," as opposed to "rebalancing," in Exhibit 4, for clarity and consistency with Exhibit 3, which mentions rebalancing LTD assets with the total plan. Mr. Matson said the two terms actually refer to the same action and that staff would make the clarification.

Motion: Mr. Tom Connelly moved to approve Exhibit 3: ASRS LTD Fund Rebalancing Policy and Exhibit 4: ASRS LTD Strategic Asset Allocation Policy, subject to modification pursuant to as discussed. Mr. Jeff Tyne seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, 2 excused, and 2 vacancies, the motion was approved.

10. Presentation, Discussion and Appropriate Action Regarding the Director's Report as well as Current Events

Mr. Matson presented the Director's Report. He had no comments and there was no discussion.

11. Presentation and Discussion with Respect to Informational Updates from Prior and Upcoming Operations Committee Meetings

Mr. Jeff Tyne, Operations Committee (OC) Chair, noted the following topics are to be discussed at the September 27, 2012 OC meeting:

- a. External Security Audit and Management response
- b. Web development
- c. Health insurance contract renewal

12. Presentation and Discussion with Respect to Informational Updates from Prior and Upcoming External Affairs Committee Meetings

Mr. Brian McNeil, External Affairs Committee (EAC) Vice-Chair, said the EAC will forward to the Board its recommendations for the upcoming Legislative Session. He noted the next External Affairs Committee Meeting will be held on November 2, 2012.

Mr. Tom Manos, Chair, noted Mr. Joe Carter, member of the public, had requested to speak. Mr. Carter said he had expressed his views regarding survivor benefit redesign at the September 7, 2012 EAC meeting, and Ms. Lesli Sorensen provided a response at the September 18, 2012 EAC meeting. He thanked her for the quick response.

13. Presentation and Discussion with Respect to Informational Updates from Prior and Upcoming Investment Committee Meetings

Mr. Tom Connelly, Chair, Investment Committee (IC), provided an update on the upcoming IC meeting, saying governance will be discussed. The next Investment Committee Meeting will be held on October 15, 2012.

14. Board Requests for Agenda Items

No requests were made.

15. Call to the Public

No additional requests to speak were made.

16. The next ASRS Board meeting is scheduled for Friday, October 19, 2012, at 8:30 A.M., at 3300 N. Central Avenue, 10th Floor Board room, Phoenix, Arizona.

17. Adjournment of the ASRS Board

Mr. Manos adjourned the Board meeting at 12:20 P.M.

ARIZONA STATE RETIREMENT SYSTEM

Lisa Maddox
Board Secretary

Date

Paul Matson
Director

Date